

INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Company No: 4785583

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2004



INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Directors' Report

The Directors present their report and audited financial statements for the year ended 31 December 2004.

Directors

The Directors who held office during the financial period were as follows:-

P G Barlow
P L Chalmers
A P Concannon
P G Cox (resigned 6th December 2004)
K J Oakley
A S J Ramsay
M D Williamson (appointed 6th December 2004)

Directors' Interests

The Directors of the Company had no beneficial interest in the share capital of the Company at the date of this report. The interests in shares of Mr M D Williamson and Mr A P Concannon in International Power plc, the company's ultimate holding company are disclosed in that company's accounts.

According to the register of Directors' interests kept under Section 325 of the Companies Act 1985, the Directors had the following interests in the 50p ordinary shares and share options in International Power plc, the Company's ultimate holding Company:

	Ordinary Shares		Executive Share Options		Sharesave Options	
	31/12/04 *	31/12/03 *	31/12/04 *	31/12/03 *	31/12/04 *	31/12/03 *
P G Barlow	20,810	-	377,991	303,110	20,499	20,499
P L Chalmers	18,297	18,297	221,257	168,639	11,793	11,793
K J Oakley	18,465	-	252,025	200,496	11,793	11,793
A S J Ramsay	17,226	7,453	282,500	223,809	20,499	20,499

Detailed below are the Directors' interests in share options held in International Power plc during the period:

P G Barlow	Grant Date	Number of Options*	Exercisable Price*	Date Exercisable
(UNAPP ESOS)	01.12.1998	29,863	313.92p	2001-2008
(UNAPP ESOS)	03.10.2000	48,004	277.55p	2003-2010
(APP ESOS)	03.10.2000	8,471	277.55p	2003-2010
(UNAPP ESOS)	22.03.2001	34,360	209.22p	2004-2011
(APP ESOS)	22.03.2001	3,100	209.22p	2004-2011
(UNAPP ESOS)	24.05.2002	47,187	174.50p	2005-2012
(UNAPP ESOS)	10.03.2003	132,125	62.32p	2006-2013
(UNAPP ESOS)	02.03.2004	74,881	123.53p	2007-2014
(Sharesave 5 yr)	01.10.2002	20,499	80.12p	2007-2008

Held at 31.12.04

398,490

P L Chalmers	Grant Date	Number of Options*	Exercisable Price*	Date Exercisable
(UNAPP ESOS)	01.12.1998	8,858	313.92p	2001-2008
(UNAPP ESOS)	03.10.2000	22,968	277.55p	2003-2010
(APP ESOS)	03.10.2000	4,052	277.55p	2003-2010
(UNAPP ESOS)	22.03.2001	12,546	209.22p	2004-2011
(APP ESOS)	22.03.2001	5,376	209.22p	2004-2011
(UNAPP ESOS)	24.05.2002	18,277	174.50p	2005-2012
(APP ESOS)	24.05.2002	4,298	174.50p	2005-2012
(UNAPP ESOS)	10.03.2003	92,264	62.32p	2006-2013
(UNAPP ESOS)	02.03.2004	52,618	123.53p	2007-2014
(Sharesave 3 yr)	01.10.2002	11,793	80.12p	2005-2006

Held at 31.12.04

233,050

* Adjusted post rights issue

INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Directors' Report (continued)

K J Oakley	Grant Date	Number of Options*	Exercisable Price*	Date Exercisable
(UNAPP ESOS)	03.10.2000	33,686	277.55p	2003-2010
(APP ESOS)	03.10.2000	5,944	277.55p	2003-2010
(UNAPP ESOS)	22.03.2001	19,835	209.22p	2004-2011
(APP ESOS)	22.03.2001	6,452	209.22p	2004-2011
(UNAPP ESOS)	24.05.2002	35,415	174.50p	2005-2012
(UNAPP ESOS)	10.03.2003	99,164	62.32p	2006-2013
(UNAPP ESOS)	02.03.2004	51,529	123.53p	2007-2014
(Sharesave 3 yr)	01.10.2002	11,793	80.12p	2005-2006

Held at 31.12.04

263,818

A S J Ramsay	Grant Date	Number of Options*	Exercisable Price*	Date Exercisable
(UNAPP ESOS)	02.12.1997	6,317	343.73p	2000-2007
(UNAPP ESOS)	01.12.1998	7,579	313.92p	2001-2008
(UNAPP ESOS)	03.10.2000	32,155	277.55p	2003-2010
(APP ESOS)	03.10.2000	5,674	277.55p	2003-2010
(UNAPP ESOS)	22.03.2001	18,282	209.22p	2004-2011
(APP ESOS)	22.03.2001	6,810	209.22p	2004-2011
(UNAPP ESOS)	24.05.2002	38,681	174.50p	2005-2012
(UNAPP ESOS)	10.03.2003	108,311	62.32p	2006-2013
(UNAPP ESOS)	02.03.2004	58,691	123.53p	2007-2014
(Sharesave 5 yr)	01.10.2002	20,499	80.12p	2007-2008

Held at 31.12.04

302,999

* Adjusted post rights issue

INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Directors' Report (continued)

2002 Performance Share Plan

The following Conditional Awards were made to the Directors under the Rules of the International Power 2002 Performance Share Plan:

	No. of shares under award as at 1 January 2004 *	Conditional awards made during the year	Date of award	Market value of an Ordinary Share as at date of award *	End of performance period	No. of shares under award as at 31 December 2004
P G Barlow	47,187	-	24.05.2002	174.50p	31.12.2004	47,187
	132,125	-	10.03.2003	62.32p	31.12.2005	132,125
	-	74,881	02.03.2004	123.53p	31.12.2006	74,881
Total Options	179,312	74,881				254,193
P L Chalmers	92,265	-	10.03.2003	62.32p	31.12.2005	92,265
	-	52,618	02.03.2004	123.53p	31.12.2006	52,618
Total Options	92,265	52,618				144,883
K J Oakley	35,415	-	24.05.2002	174.50p	31.12.2004	35,415
	99,165	-	10.03.2003	62.32p	31.12.2005	99,165
	-	51,529	02.03.2004	123.53p	31.12.2006	51,529
Total Options	134,580	51,529				186,109
A S Ramsay	38,681	-	24.05.2002	174.50p	31.12.2004	38,681
	108,312	-	10.03.2003	62.32p	31.12.2005	108,312
	-	58,691	02.03.2004	123.53p	31.12.2006	58,691
Total Options	146,993	58,691				205,684

* Adjusted post rights issue

The directors did not exercise any share options in International Power plc during the year.

The daily market quotation for an Ordinary Share of International Power plc during the year ranged from 108.84p to 160.75p. The mid-market price as at 31 December 2004 was 154.50p.

Shares Held in Trust

As at 31 December 2004, 3,607,734 (2003: 3,003,312) International Power plc Ordinary shares were held in trust for the benefit of current and former employees of International Power plc and its subsidiary companies. As the directors of the Company (together with all other employees of International Power and its subsidiaries) are potential beneficiaries of the shares held in trust they are therefore regarded as having an interest in the whole of those shares. Details of the International Power employee share plans for which these shares may be utilised are disclosed in the International Power plc Report and Accounts for 31 December 2004.

INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Directors' Report (continued)

Principal Activities and Business Review

The Company has been established as an investment holding company.

Results and Dividends

The financial statements of the company have been prepared in Australian Dollars. The exchange rate of Australian Dollars to Pounds Sterling as at 31 December 2004 was 2.4491.

The results of the Company are as follows:

	Year ended 31 December 2004 AUD 000	3 June to 31 December 2003 AUD 000
Loss for the financial period after taxation	(7,175)	(421)

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2004 (period 3 June to 31 December 2003: AUD nil).

Auditor

In accordance with section 386 of the Companies Act 1985, the directors of the Company have passed an elective resolution in order to dispense with the requirement to appoint auditors annually. KPMG Audit Plc will continue to act as auditor of the Company.

By order of the Board



A S J Ramsay
Company Secretary
20th October 2005

INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Statement of Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing these financial statements, the Directors are required to:

- *select suitable accounting policies and then apply them consistently;*
- *make judgements and estimates that are reasonable and prudent;*
- *state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;*
- *prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.*

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of International Power Australia Funding (2)

We have audited the financial statements on pages 7 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
KPMG Audit Plc
Chartered Accountants
Registered Auditor
21 October 2005

8 Salisbury Square
London EC4Y 8BB

INTERNATIONAL POWER AUSTRALIA FUNDING (2)**Profit and Loss Account****For the year ended 31 December 2004**

	Notes	Year ended 31 December 2004 AUD 000	3 June to 31 December 2003 AUD 000
Profit on ordinary activities before interest and taxation		-	-
Interest payable and similar charges	4	<u>(10,250)</u>	<u>(421)</u>
Loss for the financial period before taxation		(10,250)	(421)
Tax credit for the period	6	<u>3,075</u>	<u>-</u>
Loss for the financial period	10	<u>(7,175)</u>	<u>(421)</u>

The Company had no other recognised gains or losses for the year.

The notes on pages 10 to 12 form part of these financial statements.

INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Balance Sheet

As at 31 December 2004

	Notes	31 December 2004 AUD 000	31 December 2003 AUD 000
Fixed assets			
Investments	5	123,900	123,900
Current Assets			
Debtors	7	3,075	-
Current Liabilities			
Creditors: amounts falling due within one year	8	(134,571)	(124,321)
Net current liabilities		<u>(131,496)</u>	<u>(124,321)</u>
Total net liabilities		<u>(7,596)</u>	<u>(421)</u>
Capital and reserves			
Called up share capital	9	-	-
Profit and loss account	10	<u>(7,596)</u>	<u>(421)</u>
Equity shareholders' deficit		<u>(7,596)</u>	<u>(421)</u>

The notes on pages 10 to 12 form part of these financial statements.

Approved by the Board of Directors on 26th October 2005 and signed on its behalf by:-



M D Williamson
Director

INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Reconciliation of Movements in Shareholders' Funds For the year ended 31 December 2004

	Notes	Year ended 31 December 2004 AUD 000	3 June to 31 December 2003 AUD 000
Shareholders' deficit at beginning of period		(421)	-
Loss for the financial period	10	(7,175)	(421)
Shareholders' deficit at end of period		<u>(7,596)</u>	<u>(421)</u>

The notes on pages 10 to 12 form part of these financial statements.

INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Notes To The Accounts

1. Accounting Policies

The following accounting policies have been applied consistently, in dealing with items which are considered material in relation to the Company's financial statements.

a. Basis of Preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with applicable accounting standards.

Under section 228 of the Companies Act 1985, the Company is exempt from the requirement to prepare consolidated group accounts on the grounds that its results are included in the accounts of its parent undertaking International Power plc. Consequently, the financial statements present information about the Company as an individual undertaking and not about its group.

The Directors have considered the appropriateness of the going concern assumption in preparing these financial statements. On the basis that the parent company, International Power plc has confirmed its continuing support for the foreseeable future then in the opinion of the Directors the Company is a going concern and the financial statements have been prepared on this basis.

b. Cash Flow Statement

Under FRS 1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking included within publicly available consolidated financial statements.

c. Foreign Currencies

Transactions denominated in foreign currencies arising in the normal course of business are translated into Australian dollars at the exchange rate ruling on the date the transaction takes place unless related or matching forward foreign exchange contracts have been entered into, when the rate specified in the contract is used. Monetary assets and liabilities expressed in foreign currencies are translated into Australian dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising in the normal course of business and on the translation of monetary assets and liabilities are dealt with in the profit and loss account.

d. Fixed Asset Investments

Fixed asset investments are stated at cost less provision for impairment.

2. Directors' and Employees' Remuneration

The Directors did not receive any fees or emoluments during the year directly attributable to their positions within the Company (period 3 June to 31 December 2003: AUD nil). The Company had no employees during this financial year and the previous financial period.

3. Auditor's Remuneration

The Auditor's remuneration is borne by International Power plc, the Company's ultimate holding company.

4. Interest payable and similar charges

	Year ended 31 December 2004 AUD 000	3 June to 31 December 2003 AUD 000
Interest due on loans from fellow group undertakings	(10,250)	(421)

INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Notes To The Accounts (continued)

5. Fixed Assets Investments

	2004 AUD 000	2003 AUD 000
Investment in subsidiary undertakings:		
At start of period	123,900	-
Additions during the period	-	123,900
As at 31 December	123,900	123,900

On 16 December 2003 the company acquired 100% of Pelican Point Power Ltd for a value of AUD 123,900,000 from International Power Plc. Pelican Point Power Ltd is a UK incorporated Company.

6. Tax on Loss on Ordinary Activities

	Year ended 31 December 2004 AUD 000	3 June to 31 December 2003 AUD 000
Analysis of credit in period:		
Current tax:		
UK corporation tax	(3,075)	-
Total current tax credit	(3,075)	-
Current tax reconciliation		
Loss on ordinary activities before tax	(10,250)	(421)
Current tax credit at 30% (2003: 30%)	(3,075)	(126)
Group relief surrendered	-	126
Total current tax credit	(3,075)	-

7. Debtors

	31 December 2004 AUD 000	31 December 2003 AUD 000
Amounts falling due within one year:		
Group taxation relief	3,075	-

8. Creditors

	31 December 2004 AUD 000	31 December 2003 AUD 000
Amounts falling due within one year:		
Amounts due to fellow group undertaking	(134,571)	(124,321)

9. Share Capital

	31 December 2004 AUD 000	31 December 2003 AUD 000
Authorised		
1,000 ordinary shares of GBP 1.00 each	2	2
Issued and fully paid		
46 ordinary shares of GBP 1.00 each	-	-

INTERNATIONAL POWER AUSTRALIA FUNDING (2)

Notes To The Accounts (continued)

10. Reserves

	Profit and Loss Account AUD 000
Balance as at 1 January 2004	(421)
Loss for the period	<u>(7,175)</u>
Balance as at 31 December 2004	<u>(7,596)</u>

11. Related Party Disclosure

As at 31 December 2004, the Company was a wholly owned subsidiary of International Power plc. The Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

The consolidated financial statements of International Power plc within which this Company is included, can be obtained from the address given in note 12.

12. Controlling Party and Ultimate Parent Undertaking

As at 31 December 2004, International Power Australia Funding (2) Ltd was controlled by International Power plc.

As at 31 December 2004, the smallest and largest higher group of undertakings for which group accounts are prepared was for International Power plc.

As at 31 December 2004, International Power plc was the Company's ultimate holding company. Copies of the accounts of International Power plc may be obtained from the following address:

Senator House
85 Queen Victoria Street
London
EC4V 4DP